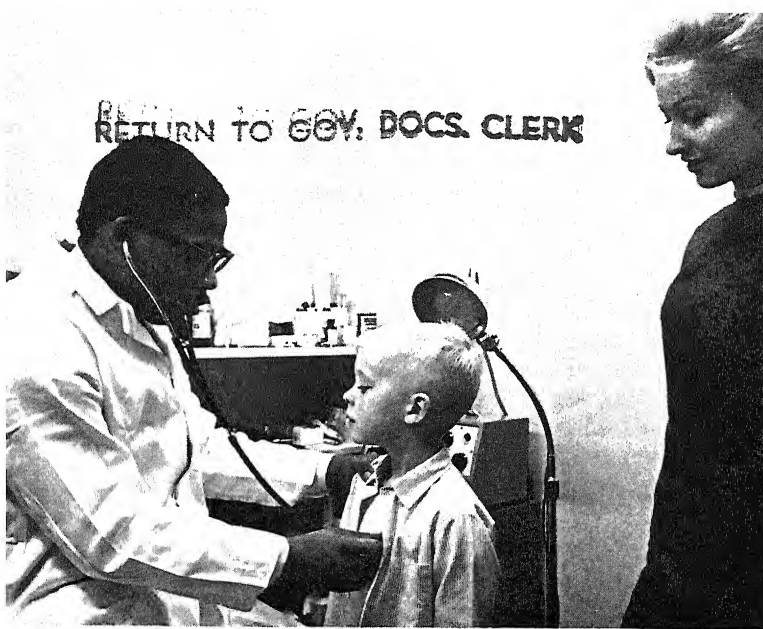


HUD AIDS FOR FINANCING GROUP MEDICAL PRACTICE FACILITIES



**U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT**
Washington, D.C. 20410

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Group Practice in Health Care

In group practice, general practitioners, medical specialists, dentists, or optometrists voluntarily join to pool their professional skills.

The acceptance of group practice as a way of meeting changing health-care needs is growing steadily throughout the nation. This trend is the result of several factors — population increases, heavy demands for health care, rapid advances in medical techniques, growing complexity in methods of medical diagnosis and treatment, increase in specialization along with decline in number of family physicians, and increase in hospital costs along with shortage of good facilities.

Group practice is a sound approach toward stretching the supply of medical specialists we have and at the same time providing a wider range of high-quality health care services in communities.

Money for Group Practice Needs

Lack of long-term loans at reasonable rates has been a big drawback to providing facilities and equipment for group practice. Doctors in some communities may be able to borrow the money they need to establish quarters for a group practice. Many groups, however, especially those in outlying or low-income urban areas, find it hard to get suitable long-term loans to finance group facilities. As a result, many communities are denied the benefits that come from group practice.

To remedy this situation, Congress in 1966 authorized a program of Federal Housing Administration mortgage loan insurance for group practice facilities. This is a program of the Department of Housing and Urban Development. It is administered under Title XI of the National Housing Act by the FHA, working in close cooperation with the Department of Health, Education, and Welfare. The purpose of the program is

“to assure the availability of credit on reasonable terms to units or organizations engaged in the group practice of medicine, optometry, or dentistry, particularly those in smaller communities and those sponsored by cooperative or other nonprofit organizations, to assist in financing the construction and equipment of group practice facilities.”

How the Program Works

The FHA insured mortgage loan may be used to build, rehabilitate, equip and furnish structures for the group practice of medicine, dentistry, or optometry.

The FHA receives guidance in certain technical matters from the Public Health Service, Department of Health, Education and Welfare. The two agencies review proposals for group practice projects at the same time — FHA looks into the soundness of the mortgage transaction, and HEW views the need for and suitability of the proposed facility from a medical and health standpoint.

The Sponsor and the Mortgagor

The sponsor is the organization or group that initiates and promotes development of the project. A group practice project may be sponsored by a nonprofit group or organization that will lease the facility to a group of doctors, dentists, or optometrists. A group of such health-care specialists may create a separate nonprofit entity as mortgagor (borrower) and use the facility.

have to set up a nonprofit unit to own the property as mortgagor and to make it available to the practicing group through a lease or contract.

The Practicing Group

Those who take part in the group practice must be members of an association or group capable of providing and intending to provide health care for ambulatory patients. This care includes prevention, diagnosis, and treatment in the fields of medicine, dentistry, and optometry. The services rendered by the group must be comprehensive and provided under a coordinated practice program. Patients pay for such services in either of two ways:

- Regular payments to an organization under a prepayment plan that covers costs of all or most of the services the organization offers.
- Separate fee for each service received.

The group practitioners must share the use of technical and professional equipment and auxiliary staff.

The group must have enough personnel, including nurses, technicians, and others, to provide supporting service to the professional members. Staff members must be properly qualified and licensed, in line with State or local laws. Competent handling of the group's business affairs must be arranged.

Basically, the practicing group in the different fields must be made up as follows:

- *Medicine* — must have 5 or more full-time doctors, at least one in general practice or internal medicine; must also include doctors, or have arrangements for patient treatment by doctors, qualified in surgery and obstetrics. In isolated or sparsely populated communities, there might be as few as 3 doctors. (The merit of each group that provides comprehensive care in one or more major medical specialties is weighed separately.)

- *Dentistry* — must have 3 or more full-time dentists, at least one providing general dental care.
- *Optometry* — must have 3 or more full-time optometrists.

If a basic group practice qualifies, it may add full- or part-time professionals from its own or other fields. Full-time practitioners are those who devote at least three-fourths of their professional time to caring for the group's patients through the group arrangement.

Sponsor Conference with FHA

A sponsor interested in developing a group practice facility should first arrange for a conference with the director of the local FHA insuring office. This conference should be held before the sponsor takes any definite action, such as making commitments to buy land and buildings, engaging professional help in developing the project, or applying to a lender for a mortgage loan. The sponsor should prepare for the conference by reviewing FHA requirements on the "Request for Preliminary Analysis" (Form 2013 GP-1).

At the preliminary conference, the sponsor's proposed project is discussed and FHA requirements, policies, and procedures under the program are explained.

Preliminary Analysis of Proposal

After the preliminary conference, if the sponsor decides to go ahead with his proposal, he should submit to the local FHA insuring office a formal "Request for Preliminary Analysis," accompanied by \$400 for the analysis.

FHA sends the sponsor a letter stating the results of its preliminary analysis. In the case of a proposal judged to be feasible, this letter also invites the sponsor to apply through its lender for mortgage insurance. The sponsor may deal directly with FHA in the preapplication stage, but must work through an FHA-approved lender to make formal application for an insured mortgage.

Evidence that the sponsor or mortgagor has been unable to obtain a conventional mortgage loan on comparable terms must accompany the application for mortgage insurance.

The Mortgage

Within a top limit of \$5 million, the mortgage amount for a group practice facility cannot exceed 90 percent of FHA's estimate of the property value with construction or rehabilitation completed. Property value may include land, proposed physical improvements, equipment, furniture, utilities within the boundaries of the property, fees for architects and others, taxes and interest accruing during construction, and other charges incident to construction or rehabilitation.

When existing facilities are to be rehabilitated, further limits apply:

- If the property is owned free of debt, the top limit is the full rehabilitation cost.
- If an existing mortgage on the property is to be replaced with a new mortgage that includes rehabilitation costs, the limit is: rehabilitation cost plus whichever is less — the outstanding debt or 90 percent of estimated fair market value of land and improvements before rehabilitation.
- If the property is to be acquired and the amount of the mortgage is to include the purchase price as well as the cost of rehabilitation, the limit is: 90 percent of rehabilitation cost plus whichever is less — 90 percent of the actual price of land and improvements, or 90 percent of the estimated fair market value of same before rehabilitation.

Rehabilitation may include structural repairs, improvements, or additions.

The interest rate cannot exceed 6 percent a year on the declining mortgage amount, and the term of the mortgage can be no more than 25 years. The loan is repaid in monthly payments to the lender. These payments include a $\frac{1}{2}$ of 1 percent FHA mortgage insurance premium, and amounts for property taxes and casualty insurance.

The project must continue to operate as a group practice facility as long as the mortgage insurance is in effect, unless FHA permits other use.

Building and Equipment

The law requires that the facility be constructed in an economical manner without elaborate or extravagant design or materials. FHA suggests guidelines toward the design and construction objectives of the group practice facilities program, but it does not set detailed design and construction standards for the facilities. Applicants for financing under this program may want to obtain the services of an architect experienced in the design of medical clinics.

The cost of most equipment for the facility can be covered in the mortgage amount. For instance:

- Built-in equipment not subject to transfer or removal and included in the construction contract—such items as built-in cabinets, elevators, plumbing, heating and electrical equipment and fixtures.
- Equipment (normally bought outside the construction contract) necessary to operation of the group practice and having an estimated life of at least five years—such as furniture, accounting machines, sterilizers, radiographic units and mobile cabinets.

Cost of minor equipment, such as instruments, diagnostic and laboratory items having a useful life of less than five years, and consumable supplies or products cannot be included in the mortgage.

Equal Opportunity in Housing

FHA regulations under the President's Executive Order 11063 of November 20, 1962, require that housing provided with FHA assistance be made available without discrimination because of race, color, creed, or national origin.

The regulations prohibit any person, firm, or group receiving the benefits of FHA mortgage insurance or doing business with FHA from practicing such discrimination in lending or in the sale, rental, or other disposition of the property. Violations may result in discontinuation of FHA assistance.

The FHA in Brief

Since its establishment in 1934, the Federal Housing Administration has written mortgage and loan insurance amounting to well over a hundred billion dollars. This amount covers mortgage insurance on millions of homes, on more than a million living units in multifamily projects, and on many millions of property improvement loans. Altogether, FHA has helped between 35 million and 40 million families to improve their housing conditions.

Congress provided the FHA mortgage and loan insurance system to help improve housing standards, to promote the use of sound financing methods, and to help keep the mortgage market steady. FHA supports itself through income derived from fees, insurance premiums, and investments. Its insurance reserves are well over a billion dollars.

All loans insured under FHA programs are made by private lenders. FHA does not lend money or build houses. The first programs dealt with insured home-improvement loans, home-mortgage loans, and rental-housing mortgage loans. Additional programs cover insurance of: mortgages to develop land, to finance group practice facilities, and to provide homes for servicemen, housing for people of low and moderate income, housing in urban-renewal areas, housing for the elderly or handicapped, nursing homes, cooperative housing, condominiums, experimental housing, military housing; and loans for major home improvements. Also, FHA administers the rent supplement program of the Department of Housing and Urban Development.

FHA has had a marked influence on the location, volume, and kind of housing built in the United States. It has helped to make the low-downpayment, long-term, fully amortized mortgage the standard in mortgage lending.

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